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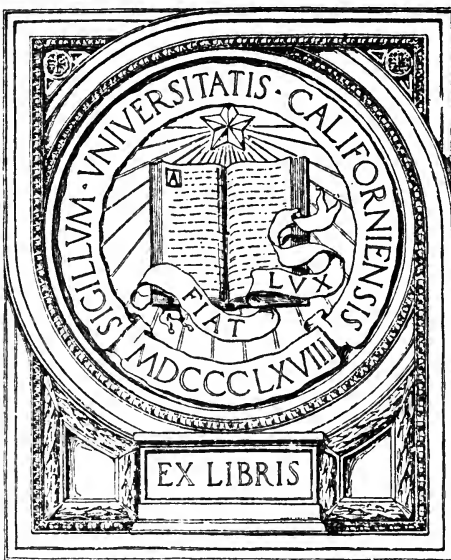
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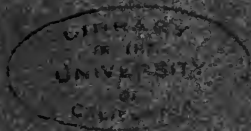
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The Administration Currency Bill.

ADDRESS BY

GEORGE M. REYNOLDS

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BEFORE THE DELEGATES TO THE CONVENTION OF THE
MINNESOTA BANKERS' ASSOCIATION, AT DULUTH,
MINNESOTA, THURSDAY, JULY 10, NINETEEN THIRTEEN

The Administration Currency Bill

ADDRESS BY

GEORGE M. REYNOLDS

*President of the Continental and Commercial
National Bank of Chicago*



BEFORE THE DELEGATES TO THE CONVENTION OF THE
MINNESOTA BANKERS' ASSOCIATION, AT DULUTH,
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Mr. President and Gentlemen of the Minnesota Bankers' Association:

Recognizing as I do that the need for early currency legislation is imperative, it is with conflicting emotions that I undertake a public discussion of the Administration Currency Bill.

While I hope for the earliest possible enactment of a good currency law, still, my great desire in this respect cannot, and I feel should not, stifle my convictions as to the soundness and probable efficiency of the plan covered by the bill which has been introduced.

I do not want to criticise the legislative measure offered for enactment into a law simply for the sake of opposing the plan embodied in that measure, but, rather, I want to be clearly understood as being willing to waive all petty and technical objections to the plan, in the hope that discussion and analysis of it may result in its modification to the extent that it will conform as nearly as possible to the legitimate and pressing needs of the business of the country, and at the same time be fair to the banks and also assure a just and equitable treatment of the public when the new plan is put into operation.

I am well aware that the enactment of legislation is very largely the result of the application of a "give and take" policy, for there are so many in Congress whose views must be considered that any bill finally passed must, to some extent, be a compromise bill, and I have long since abandoned the hope of securing such legislation as I, or any other individual, might regard as ideal.

Inasmuch as no one individual can possibly know all upon this or any other subject, it is to be presumed that a consensus of opinion of many should represent greater wisdom than the opinion of one. However, to make this literally true, the consensus of opinion of the many must be the result of a broad-gauged and open-minded consideration of the subject, free from all prejudice and preconceived notions, so that their conclusions will reflect equity and justice in all their ramifications.

As a result of personal interviews with President Wilson and his administration heads who have been charged with the responsibility of preparing a currency bill, I have been impressed it is the earnest desire of all concerned to devise the best plan which it may be possible to enact into a law. Therefore, I believe they will welcome constructive criticism of the bill, for I feel that they, too, will recognize the wisdom of accepting the consensus of opinion of the many rather than to rely upon the knowledge or belief of but a small number.

The bill is intended to provide for a system of banking and currency in the United States which, while it will give a greater elasticity in our credit and banknote issues, should also protect our organization of credit and give stability to our business. It is

sought to bring this about through a provision for the establishment of twelve Federal Reserve banks, one each in twelve important commercial cities so geographically located as to be best calculated to serve the needs of all sections of the country.

It is proposed these Federal Reserve banks shall be organized by means of having the banks, both National and State, of any one district subscribe to the stock of the Federal Reserve Bank of that district to the extent of 20 per cent of the capital of the subscribing bank, one-half, or 10 per cent, of which is to be paid in cash, the balance to stand as a liability against the subscribing bank. The amount of capital of any Federal Reserve Bank would, therefore, depend upon the number of subscribing banks in any district and the amount of their capital. It is stipulated, however, that no Federal Reserve Bank shall start with a paid-up capital of less than \$5,000,000.

Thus it will be seen that to establish a Federal Reserve Bank in any region, the banks in that region subscribing to its capital stock would necessarily have to have a capital aggregating \$50,000,000; they might have more, with the result that the Federal Reserve Bank would have as much larger capital than \$5,000,000 as 10 per cent of the aggregate capital of all member banks would exceed \$50,000,000.

It is provided that each of these Federal Reserve banks shall have nine directors, three of whom shall be elected by the member banks from bankers in the district, and three by the member banks from among the business men of the district who are not bankers and who shall fairly represent the agricultural, commercial, and industrial interests of that section. Three additional are to be selected by the Federal Reserve Board at Washington, one of whom shall be designated by that board as Federal Reserve Agent and who shall have an office in the premises of the Federal Reserve Bank and be the chairman of its Board of Directors. The board thus constituted shall have the right to elect its own officers and manage its own business, subject to such supervision and control of the Federal Reserve Board as has been provided.

So far as I can see this is satisfactory, except that I think the Federal Reserve Agent, who, it is provided, will represent the Government on the board, should not be its chairman even though, as as I understand from the authors of the bill, this is meant to be only an honorary position and it is not intended he should have anything more to do with managing the business than his influence as one director would give to him.

The provision made for allowing member banks to discount commercial paper is satisfactory also, except, that the bill does not limit the amount of rediscount to which any one bank shall be entitled. I think this should be modified to make the limit of rediscounts for any member bank an amount equal to its capital. Otherwise the door will be open for inflation.

Assuming that you have read and are somewhat familiar with the bill, and appreciating I could not in the short time allotted to me undertake an exhaustive discussion of its details, I ask your kind indulgence while I call your attention to and discuss briefly four sections of the bill which I regard as comprising its most important special features.

Placed in the order of their importance from the standpoint of principle as well as in their practical effect, should they be adopted, I would group the sections as follows:

- (1) The one providing for the organization of the Federal Reserve Board;
- (2) That relating to the proposed treatment of the National-Bank-United-States-bond-secured notes;
- (3) The note issues;
- (4) The reserves.

Believing that in the interest of the public welfare the Government should exercise a certain supervision or control over the new system, in a regulatory way, the framers of the bill have provided in it for the creation of a Federal Reserve Board of seven members, which will include the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, respectively, the four additional to be appointed by the President of the United States.

Inasmuch as the three first named would be members of the President's official family, receiving their office through appointment by him, it will be seen that the entire Federal Reserve Board would be appointees of the President; and since by the terms of the bill itself not more than one of the directors appointed to serve on that board must be a banker of wide experience, thereby prohibiting the sole owners of the stock from the right of representation, in fact, excluding them from any participation in the deliberations of the board, bankers, business men, and thinking people, generally, regard this prohibition as most revolutionary in character and calculated to place our whole system of banking under the domination and control of a purely Political board.

Inasmuch as it is made obligatory upon the National banks of the country to become subscribers to the stock of the Federal Reserve banks (and it will be necessary for the National banks, generally, to comply with this requirement if the plan becomes successful) they would be compelled to subscribe for \$200,000,000 of stock, one-half, or \$100,000,000, of which they would have to pay in, and in addition they would, in accordance with the reserve requirements, upon which I will touch later, be compelled by law to carry about \$550,000,000 of their reserves with the Federal Reserve banks, over which the Federal Reserve Board, composed exclusively of the partisans of the particular political party in control, would exercise a dominating or controlling power. Do you not think the people of this country should deliberate upon this fact and carefully weigh the possibilities involved?

Instead of offering a system sufficiently attractive within itself to cause the bankers of the country to desire to go into it on its merits, as I claim it should be, we are told we *must* contribute approximately \$650,000,000 to its success, and, by implication at least, we are told we are not worthy to be represented on the Federal Reserve Board.

If the Government can rightfully compel the banks to contribute this vast sum for this purpose, would it not follow that it could compel corporations doing an interstate business to invest their funds for some other purpose; and if so, how long do you think there would be any capital invested in enterprises over which this drastic prerogative could be exercised by the officials of the Government?

It is one of the traditions of the Anglo-Saxon race and in accordance with the spirit of true Americanism that capital must be managed by those who supply it, and furthermore, that the investor must be free to decide whether or not he shall make investments; yet, we are confronted with a plan which proposes to *compel* the banks of the country to turn over to a political committee virtual control of about Ten Billion Dollars of banking power, the result of fifty years of conscientious labor on the part of the officers of 7,000 National banks in the United States.

I want to say here and now that I am firmly of the belief the Government should have some supervision over the system of banking and currency which shall be established, but it should be purely regulatory and not of an initiative, administrative, or controlling character.

Since banks are only the "warehouses" for the money and credit of the country, thereby providing places to which the people may go either to deposit their money for safe keeping or to secure credit to the extent of their needs against the money so left, whatever is provided for in a banking system that will be either beneficial or detrimental must ultimately fall with full force upon the public. Whatever assets a bank owns in excess of the funds invested by its stockholders are offset by an equal amount of liabilities to the public; therefore, any condition which seriously disturbs the banking business of the country to the extent of entailing loss or impairing general business must be borne very much more largely by the masses than by the banks; so the question of the failure of this bill to provide representation for the banks on the Federal Reserve Board is one which in the last analysis is of vastly more importance to the people than it is to the bankers themselves.

The manner of the appointment of the board, together with the fact that three members of the President's cabinet would be members thereof, provides for Administrative control as well as Governmental control, and it seems to me inconceivable that the matter could be kept out of politics; I fail to see how it would be possible to keep our banking system from becoming a political issue every presidential election; and since the entire business of

the whole country of every kind and character is conducted mainly through the wide use of credit, making control of our banking system mean, in fact, the control of all lines of business, it seems to me the adoption of this plan would be certain to bring disorder and chaos to our business to a much greater extent on the occasion of future presidential elections than has been the case in the past.

We are told that the power given to the Federal Reserve Board for the control of our banking system is very similar to that given to the Interstate Commerce Commission, but the fact a railroad has the right of appeal to a court provided for that purpose seems to me to make the cases entirely dissimilar.

In discussing the bill with our committee of bankers who visited Washington, the Administration heads disclaimed any intent to have the Federal Reserve Board control or in any way interfere with the conduct of the Federal Reserve banks to the extent my remarks would imply, yet when I call your attention to some of the powers given to that board, I am sure you will agree that very little, if any more, power would be necessary to give that board absolute control over the banking business of the country.

The following are some of the specific powers given to the Federal Reserve Board by the bill:

The power to require the removal of the officers of the Federal Reserve banks;

The power to suspend further operations of any one or all of the Federal Reserve banks and appoint a receiver;

The power to make and promulgate from time to time regulations governing the transfers of money, and the power, if it so chooses, to act as a Clearing House;

The power to order not less than four examinations per year of banks in Central Reserve cities;

The power to fix the salary of the Federal Reserve Agent—such salary to be paid by the Federal Reserve banks;

The power of removal of directors of a certain class of Federal Reserve banks, when, in their opinion, they do not represent the various industries of that district;

The power to use their discretion to admit State banks to the system;

The power to reject members once they are admitted to the system;

The power to put the Comptroller's office under the jurisdiction of the Secretary of the Treasury acting as chairman of the Federal Reserve Board;

The power to add to the number of Reserve cities and the power to reclassify existing Reserve cities;

The power of discretion as to permitting country banks to carry 5 per cent of their reserve with their correspondents in Reserve cities after the plan has become operative;

The power to control the note issue with power to grant or to refuse to grant the application of Federal Reserve banks for same;

The power to cause any member bank of a Federal Reserve Bank to be examined;

The power to require one Federal Reserve Bank to rediscount for another Federal Reserve Bank;

The power to define commercial paper which shall be admissible for rediscount at Federal Reserve Banks;

The power to suspend for a period not exceeding thirty days and to renew such suspensions for periods not to exceed fifteen days any and every reserve requirement specified in the Act.

The bill originally gave the Federal Reserve Board the power to name the discount rate of the Federal Reserve banks in the various districts in which they would be located, but, at the urgent request of the committee of bankers, they modified it by placing the initiative upon the Federal Reserve Bank and giving the Federal Reserve Board the right of approval.

In addition to all of these especially defined powers, the bill provides that this board shall have the right to perform the duties, functions, or services implied as well as specified in this act.

I do not believe the Administration seeks any such powers, therefore, in the interest of the passage of the bill, let it be so modified as to restrict the powers of the board to those that are purely regulatory, defining fully just what power is vested in the board rather than to leave the extent of its activity more or less an open question.

The committee of bankers who visited Washington asked for representation for the bankers upon the Federal Reserve Board, through having that board enlarged from seven to eleven members, the additional four to be selected by the President from a list of names to be furnished by the Federal Reserve banks, each bank to furnish one name.

This would give the Government seven out of the eleven members on the board, and I can see no good reason why there should have been any objection to that plan. Failing, however, to secure representation on the board, the matter might be adjusted by a provision in the bill for the appointment of an Advisory Board, composed of, say, one from each district in which a Federal Reserve Bank would be located, three of which should have the right to sit in the official meetings of the Federal Reserve Board and report its actions to the members of the Advisory Board, as in the case of the Advisory Board provided for in the Reichsbank of Germany; but even with the adoption of this idea, the powers of the Federal Reserve Board should be restricted and their duties fully defined, and it should be restrained from acting beyond such authority as is specifically given to it.

The bill as it was introduced provided for treatment of the National-Bank-United-States-bond-secured notes by giving the National banks the right to present to the Secretary of the Treasury in any one year 5 per cent of the 2 per cent United States bonds now owned by National banks and held by the Treasury Department to secure their circulating notes now outstanding and receive in lieu thereof an equal amount of 3 per cent United States bonds due after twenty years, the latter to carry no circulation privileges.

In practice, this would result in having National banks reduce their circulation at the rate of 5 per cent per annum for twenty years, at the end of which time all National Bank notes would be fully retired from circulation.

The original so-called "Official" bill did not give consideration to our National Bank notes, the section covering them having been dropped from the tentative bill made public two or three days prior to the time the official bill was given out, but after a discussion of the matter with the committee of bankers, those in authority reincorporated it in the bill.

We recommended that either the section be reincorporated as it had been, or, preferably, that the Government should actually retire 5 per cent or approximately \$35,000,000 per year of the United States 2 per cent bonds—in that way likewise retiring the National Bank notes in twenty years.

This recommendation was made for the reason that we felt there might be less political opposition to the policy of paying off the Government 2 per cent bond debt at the rate of \$35,000,000 per year than there would be if the Government were to increase the rate of interest on the \$700,000,000 of such bonds.

When it is borne in mind that the Government has been the principal beneficiary as a result of the low rate of interest at which these bonds have been floated, because of their required use by National banks as security for their circulating notes, thereby enabling the Government to save millions of dollars of interest annually, I think all fair-minded people will feel that there is an obligation on the part of the Government to protect the banks against loss on the bonds so held.

Careful consideration of this subject since my return from Washington leads me to believe that any plan of currency legislation which is provided should either employ these bonds upon some basis which will protect the banks from loss, or it should take them up and pay them off, or refund them into bonds which will be worth par in a normal market for securities.

The bill also provides for an issue of Federal Reserve Treasury notes not to exceed \$500,000,000, and in addition thereto a sum equal to the difference between the total amount of National Bank notes outstanding at any given time and the amount of such notes outstanding at the time of the passage of the bill.

It also provides that these notes shall purport on their faces to be the obligations of the United States and shall be issued at the discretion of the Federal Reserve Board and solely for the purpose of making advances to Federal Reserve banks. It provides that they shall be receivable for all taxes, customs, and other public dues, and shall be redeemed in gold, on demand, at the Treasury Department in the City of Washington, District of Columbia, or at any Federal Reserve Bank.

The mode of procedure through which these notes would be put into circulation would be that any Federal Reserve Bank could, upon a vote of its directors, make application to the Federal Reserve Board through the local Federal Reserve Agent, for such amount of the Treasury notes as it might deem best, such application to be accompanied with a tender to the local Federal Reserve Agent of collateral security to protect the notes for which application is made, equal in amount to the sum thus applied for, the collateral security thus offered to be notes and bills accepted for rediscount; and if deemed advisable the Federal Reserve Board would be authorized at any time to call upon a Federal Reserve Bank for additional deposits of like security. Whenever any Federal Reserve Bank shall pay out or disburse Federal Reserve Treasury notes it shall segregate in its own vaults and shall carry to a special account on its books gold or lawful money equal in amount to $33\frac{1}{3}$ per cent of the Treasury notes so paid out by it. The Federal Reserve Board shall have power, in its discretion, to require Federal Reserve banks to maintain on deposit in the treasury of the United States a sum in gold or lawful money equal to 5 per cent of such amount of Federal Reserve Treasury notes as may be issued to them from time to time; but such 5 per cent shall be counted and included as part of the $33\frac{1}{3}$ per cent reserve hereinbefore required.

In addition to the pledging of commercial paper to the extent of the par value of the amount of notes thus received by any Federal Reserve Bank, such notes when paid out by that bank would become a first and paramount lien on all of its assets. Thus you will see that these notes would be secured, first, by the credit of the Government, and, second, by a specific deposit by the Federal Reserve Bank of commercial paper equal to the amount of notes received, and, third, when paid out for a Federal Reserve Bank they become a first and paramount lien on all of the assets of that bank.

Believing that the bank-note issue, as proposed in the bill, is neither sound nor scientific from the standpoint of modern banking, the committee of bankers who called upon the President suggested an entire change in the manner of issue and a somewhat different method of securing these notes. We held that the Government should not guarantee nor undertake the responsibility of the redemption of the notes issued, for since they would, even under the plan proposed in the bill, be abundantly secured, it seemed to us entirely unnecessary that they should bear the promise of the Government to redeem them in gold; especially so, since under the proposed plan the real burden

and responsibility of maintaining the necessary gold reserve against them is placed upon the Federal Reserve banks. Our reasons for this were based upon the theory that it would be putting an unnecessary responsibility and burden upon the Government and one which might cause embarrassment.

If the notes were the obligation of the Federal Reserve banks alone, and properly secured, any emergency which could possibly cause a default in the payment of gold would not affect the credit of the Government and would leave it free and unhampered to use its influence and prestige to bring about stability, whereas, if the promise of the Government to redeem these notes in gold should be linked with that of the Federal Reserve Banks and a default should occur neither would be free to assist the other.

In case of war with a foreign nation making it necessary for the Government to use its credit freely, its guarantee of the payment of these notes in gold would, no doubt, impair its ability to borrow on the most advantageous basis, and it would at the same time, through so materially increasing its obligations, cause more or less apprehension concerning such outstanding notes; and if a condition should be created through which the public would doubt the ability of the Government to pay gold against these notes, gold would be hoarded and the notes would depreciate in value. Furthermore than this, the manner in which they must be gotten into circulation is unscientific and would have a tendency for inflation, for any plan which does not force immediate automatic redemption of a bank note, once it has served its purpose, is built upon a wrong premise.

Much confusion regarding bank notes is created through the fact that many regard them as money. This is a fallacy, for nothing could be further from the truth; they are, in fact, only instruments of credit given such form that the public will know they are secured and are generally accepted as a circulating medium; they perform the same functions as a check, and if they are effective and are outstanding only to the extent of the requirements of business, they, like checks, should be cancelled when paid.

Instead of the plan as proposed in the bill, we recommended that the notes should be issued by the Federal Reserve banks, each note to be similar in appearance, but that each should bear upon its face the number of the issuing bank. We proposed to make it the duty of one Federal Reserve Bank to daily charge to the account of, cancel and send to each of the other Federal Reserve banks, notes received by it in any day's business. Thus, bank No. 1 would daily cancel and send to the other eleven Federal Reserve banks all their notes received that day, and the other eleven banks would in like manner charge to the account of, cancel and send to Federal Reserve Bank No. 1 all of its notes received by them in any one day. In this manner there would be a constant, automatic redemption of notes outstanding, and no more notes could be kept out than the exact amount necessary for the transaction of our business.

The fact that the National-Bank-United-States-bond-secured notes have been so rigid and not at all elastic has caused many to become confused into regarding them as money rather than instruments of credit, and the inelasticity of the notes has caused us to experience alternating seasons of stringency or redundancy in our currency, depending upon conditions in business and the state of public confidence.

We proposed that any Federal Reserve Bank to issue these notes should carry a 50 per cent gold reserve against its liabilities of all kinds (being $16\frac{2}{3}$ per cent more gold than is required in the plan proposed in this bill) and that the said notes should be secured by the liquid assets of the issuing bank, thus becoming a first lien on all its assets. In addition thereto, they would have behind them the stockholders' double liability, and even beyond this should be, subject to the notes issued by such banks, a first lien on the assets of all the other Federal Reserve banks.

It is inconceivable that a bank note could be better secured, and this sort of note, while being equally as safe as the one proposed in the bill, would not in any way entail any liability upon the Government; and in the event of a default in the payment of gold against such notes the credit of the Government could not in any wise be affected, thus leaving it in the attitude of being most powerful to restore order.

We believe that the theory of taxing notes to enforce their redemption is wrong in principle and practice, and as a substitute for this plan and with a view of securing a system which would prevent inflation, we suggested that a Federal Reserve bank should issue notes without tax so long as it should maintain a 50 per cent gold reserve against its total liabilities, including deposits, but that such notes as it should have outstanding when its gold reserves would fall below 50 per cent should be taxed at the rate of $1\frac{1}{2}$ per cent for each $2\frac{1}{2}$ per cent its gold reserve should fall under 50 per cent down to $33\frac{1}{3}$ per cent. In practice this would mean that a Federal Reserve Bank would have to pay a tax on its outstanding notes of $1\frac{1}{2}$ per cent when its gold reserve would be $47\frac{1}{2}$ per cent; 6 per cent when its reserve should drop to 40 per cent, and $10\frac{1}{2}$ per cent when its reserve would fall to $33\frac{1}{3}$ per cent; it to be prohibited from issuing notes when the reserve would fall below that point.

We believe this to be the scientific and the most practical way in which to enforce an automatic redemption of bank notes.

The bill under discussion gives to the Federal Reserve Board the power to require a tax upon circulation if in its judgment it is deemed best. What would be the situation if a member bank of a Federal Reserve Bank, after having discounted paper with it, should ask for one or two million dollars of bank notes to send to its correspondents in the country to be used for crop-moving or other purposes and the Federal Reserve Bank would have an excess of gold reserve at the time? Do you suppose the manager of that bank would be willing to pay a tax of any rate upon bank notes simply for the purpose of

accommodating the member bank? Instead of so doing, do you not think that he would say to that bank that it would be expensive to furnish these notes and insist upon it taking gold instead? This followed to its finality would mean the ultimate scattering of vast sums of gold throughout the country, whereas, the whole theory of the necessity for currency legislation is based upon the necessity for mobilizing these gold reserves.

I claim that there should be no limit on the amount of bank notes that can be issued, leaving that to be determined by the requirements of business rather than upon the guess of anyone, for who can tell today what our requirements in business for bank notes will be in five or ten years?

Removing the limit as to the maximum amount of issue and protecting us from inflation by taxing the deficiency in gold reserve as it falls under 50 per cent, along the lines I have already stated, and then making provision for such automatic redemption as I have indicated, instead of enforcing redemption by taxation, would give us a bank-note issue that would be scientific and be out in circulation in exactly the amount necessary to serve the requirements of business.

Our suggestions for changes in this respect did not meet with favorable consideration, for the reason, as we were told, that there is a wing of the Democratic party the members of which are firm in their conviction the Government should issue all bank notes or "money," as they expressed it; so our recommendations fell upon barren soil notwithstanding our earnest pleadings.

I maintain that the plan for issuing bank notes as proposed by our committee is immeasurably better than that embodied in the plan provided for in the bill.

An important section of the bill is that which relates to the reserves of the member banks of the proposed Federal Reserve banks, or our present banking institutions.

Under existing conditions, the National banks in the country towns and cities outside of Reserve cities are required to carry reserves of 15 per cent, two-fifths of which, or 6 per cent, must be in cash in their vaults, and the other three-fifths, or 9 per cent, may be carried with their correspondents in Reserve cities.

Under the proposed law, it is provided that within sixty days from and after the date when the Secretary of the Treasury shall have officially announced the fact that a Federal Reserve Bank has been established, every National Banking Association, as well as State banks which become members, shall establish with the Federal Reserve Bank of its district a credit balance on the books of that bank equal to not less than 3 per cent of its own total demand liabilities, exclusive of circulating notes, and at the end of fourteen months from the date fixed by the Secretary of the Treasury shall increase the said 3 per cent to 5 per cent; such balance may at any time be increased, but at no time shall it be allowed to fall below the amounts aforesaid.

From and after the date set by the Secretary of the Treasury and officially announced by him, it shall be the duty of member banks

now classified as "country" banks and situated outside of Central Reserve and Reserve cities, to maintain a reserve equal to 15 per cent of the aggregate amount of their deposits. Such reserves shall consist of 5 per cent of lawful money held actually in their own vaults, and for a period of fourteen months from the date aforesaid shall consist of at least 3 per cent, and thereafter of at least 5 per cent, with its district Federal Reserve bank. The remainder of the 15 per cent reserve required may, for a period of 36 months from and after the date set by the Secretary of the Treasury, consist of balances due from National banks in Reserve or Central Reserve cities, as now defined by law.

From and after a date thirty-six months subsequent to the date set by the Secretary of the Treasury, the said remainder of the required reserve, or 5 per cent, shall consist either of lawful money in their own vaults, or of balances on deposit with the Federal Reserve Bank in the district in which they are located, or both, the provision having been made that the Federal Reserve Board may, in its discretion, permit such remainder, or 5 per cent, of the reserve required to consist of balances on deposit with banks in Reserve or Central Reserve cities as defined by law. In other words, after the plan has become fully operative, the so-called "country" bank members of the Federal Reserve Bank of any district will be obliged to carry 5 per cent of their 15 per cent reserve in lawful money in their vaults, 5 per cent with the Federal Reserve Bank, and the remaining 5 per cent wherever the Federal Reserve Board in its discretion may require.

Banks in Reserve and Central Reserve cities will be required during a period of thirty-six months to so adjust their reserves that at the end of that period they will be carrying 10 per cent in gold or lawful money in their own vaults and an additional 10 per cent to their credit with the Federal Reserve banks.

A careful study of the bill will disclose the fact that the purpose of those who prepared it is to re-distribute present bank reserves, returning them to the section of the country from whence they came. It will, of course, be apparent that this, interpreted, means a desire to decentralize the reserves now held in the centers. Why this should be done or what good is to be accomplished by it I do not know, but I have reason to believe it has as its basis a desire to stifle speculation and, more specifically, to prevent the flow of money to New York to be loaned in Stock Exchange transactions. It may be possible that to pass a law determining the question of where and how bank reserves are to be carried will change human nature, but I do not believe it.

Speculation will exist so long as the desire for gain is inborn in the human race, and since business is a means through which gain is sought, speculation will exist as long as business exists; all the legislation in Christendom cannot stop it. You may try to regulate it by attempting to regulate the business which is most inclined to breed speculation, but destroy it, never.

If a proper system of currency and banking is adopted and there is established in the United States an open market for commercial paper, most of the evils that it is alleged are created through the concentration of capital in the centers will disappear, for the banks of the country are now forced to resort to Stock Exchange loans because that is the only avenue through which it is possible for them to secure liquid paper upon which funds can be immediately collected.

The maintenance of a broad, open market for commercial paper and bills of exchange would soon draw to that market the major portion of the money of out-of-town banks that has been employed in the carrying of Stock Exchange loans; therefore, why disturb the reserve relations between banks so violently, and without any definite knowledge of what effect it may have upon business?

The original official plan had, as its basis, a reserve requirement as follows:

For country banks, or banks outside of Reserve cities, 15 per cent, which amount after thirty-six months should consist of $7\frac{1}{2}$ per cent in lawful money in their vaults and $7\frac{1}{2}$ per cent to their credit in Federal Reserve banks.

For Reserve and Central Reserve cities, 20 per cent was required, 10 per cent of which would consist of lawful money in their vaults and 10 per cent to their credit with the Federal Reserve Bank.

The committee of bankers, feeling that the framers of the bill had not given careful enough consideration to the natural trend of the exchanges of the country and the necessities for leaving them free and unhampered, and believing the shifting of the reserves as provided for in the bill would work a great hardship upon the business of the country through impairing the ability of banks to furnish credit facilities to their customers, recommended to the administration heads that their bill be amended so that Country banks should continue to carry 15 per cent, the banks in Reserve cities 18 per cent, and those in Central Reserve cities 20 per cent.

It was also recommended that in the case of the country banks 5 per cent of this amount should be in lawful money in their vaults, 3 per cent to stand to their credit with the Federal Reserve banks, and the balance of 7 per cent either in their own vaults, to their credit in the Federal Reserve Bank, or with other correspondents in Reserve cities, as they might elect. In the case of banks in Reserve cities it was proposed that 6 per cent of the 18 per cent should be carried in lawful money in their vaults, 6 per cent to their credit with Federal Reserve banks and 6 per cent in either their vaults, with the Federal Reserve Bank, or with their correspondents in Central Reserve cities, as they should elect.

In the case of Central Reserve cities it was proposed that one-half of the reserve of 20 per cent should be carried in their vaults in lawful money and one-half to their credit in the Federal Reserve banks.

We made long and, as we believed, logical arguments for these modifications, and we left Washington believing that they would

be made; but the draft of the bill I have received does not embody them. It shows that after thirty-six months, one-third, or 5 per cent, of the 15 per cent reserve required of country banks may, at the discretion of the Federal Reserve Board, be continued with their correspondents in Reserve cities, qualifying their right to do so and giving the Federal Reserve Board still further administrative powers instead of restricting them as should be the case. I do not see that any provision is made that will allow any of the reserves of Reserve City banks to consist of their balances in Central Reserve cities.

I contend this drastic and wholesale shifting of reserves from the natural centers where the requirements of business have caused them to flow automatically, will disturb business and greatly impair the ability of the public to secure credit accommodations.

If none of the balances in Reserve City banks are to be counted as reserve it naturally follows that in time these balances will be withdrawn; especially so since the plan is so drawn as to encourage the members to do most of their business with the Federal Reserve banks. Consequently, we are, I think, justified in the belief that in due time this business would practically be forced into the Federal Reserve banks.

Framers of the bill claim that the relationship which would exist between the banks of the country and the Federal Reserve banks, combined with the shifting of reserves, would enable the public to secure a greater amount of credit than is now extended to it by existing banks, but I am unable to confirm this opinion unless it should contemplate almost unlimited discounting with the Federal Reserve banks by their members.

As a concrete case, take my own bank. Under normal conditions we have balances from our correspondents of over \$100,000,000. If none of these balances can be counted as reserves by our correspondents and they are forced to carry them with the Federal Reserve banks, does it not follow that we may ultimately lose that amount in bank or reserve deposits? We usually carry cash means of 40 per cent of our gross deposits, so that a \$100,000,000 deposit gives us a loaning power of \$60,000,000. To take away from the banks of Chicago the reserves thus carried by its banks for their correspondents, or \$200,000,000, would decrease their loaning ability \$120,000,000. In like manner, take away from New York City banks \$240,000,000 in deposits of this character and you would reduce the loaning power of the banks of that city \$180,000,000.

Add to this the disturbance of business that would be caused by a similar and proportionate shrinkage in the ability of banks in nearly fifty other Reserve cities and in country banks to furnish credit to their customers and you will get some idea of the effect this "redistribution" of reserves will have upon general business. We are told that this shrinkage in our loaning power is to be offset by the right of member banks to rediscount with the Federal Reserve Bank.

Now, if we, in our bank, should carry a continuous line of rediscounts with the Federal Reserve Bank equal to our capital, we

would, in the event we should lose our bank balances, still be obliged to reduce our loans forty million dollars.

In order to continue to extend the same amount of credit to our customers that we now do, my bank would be obliged to carry with the Federal Reserve Bank of our district rediscounts in an amount equal to two and one-half times our capital stock. Can you conceive that there is a banker in the country, worthy of the name, who would think of assuming such an enormous responsibility, taking the risk of loss incident to carrying such a large line of loans simply because he could loan more money than he would have, or to assure the success of a system of banking which would give the Government the major portion of the profits of such transactions? A system of banking, the success of which would require that banks dealing with the public should carry excessive lines of rediscounts continuously, would prevent our having the much needed elasticity in our credits, and would defeat the chief purpose of legislation on this subject.

It is only by running without rediscounts, or at least with the average of rediscounts at a low level, that the banks operating under our system can insure a proper elasticity in credit. The larger and maximum lines should never be taken except in emergencies when an unusual amount of credit or bank notes is needed to serve the public, and then such lines should be reduced to the minimum as soon as possible.

If the reserves of all of the National banks in the country, other than those carried in their vaults and as provided in this bill, should be forced into the Federal Reserve banks, it would require that there should be ultimately deposited with those banks, as reserves, the following amounts:

10 per cent of the \$3,390,000,000 of Country bank deposits, or.....	\$339,000,000
10 per cent of \$1,933,000,000, the deposits of ordinary Reserve cities, or.....	193,000,000
10 per cent of \$1,725,000,000, the deposits of Central Reserve cities, or.....	172,000,000

Total reserve of banks that would be required to be on deposit with the Federal Reserve banks	\$704,000,000
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In the event that under the discretionary powers of the Federal Reserve Board 5 per cent of the required reserves of the Country banks, or banks outside of Reserve cities, should be allowed to consist of balances with their correspondents in Reserve cities, it would reduce the amount of the deposits it would be necessary for the banks to make with the Federal Reserve Agent \$169,000,000, leaving the total in one instance \$704,000,000 and in the other \$535,000,000.

Add to this the \$100,000,000 which the National banks of the country would be obliged to subscribe as capital to the Federal Reserve banks and it would make a total in one instance of \$804,000,000 and in the other of \$635,000,000.

Deduct from these amounts \$215,000,000 that will be released on account of the reduction of reserves required of banks in Reserve and Central Reserve cities, and you will have \$589,000,000 in one instance and \$420,000,000 in the other, which the banks of the country would have to give up in cash or its equivalent.

It is only a simple problem in mathematics for you to ascertain how much the National banks of the country will have to contract their loans when this amount is withdrawn from them. After having arrived at a conclusion on that point, you will readily see how much the aggregate rediscounts of the National banks with the Federal Reserve banks will have to be to prevent a serious contraction in loans.

Then, too, under this distribution of reserves, where would our large borrowers go for credit? The banks, through carrying their reserves in the centers, furnish the largest volume of deposits against the smallest percentage of loans, while corporations, individuals, and firms who are borrowers, furnish the smallest percentage of deposits to the largest percentage of demand for loans.

Take away the reserves we now carry for our correspondents and you take away our ability to furnish large amounts of money to one borrower. Where, then, will those who require large amounts of money for the conduct of legitimate business go to secure their accommodations?

To my mind, this is a subject that concerns the business man much more than it does the banker; especially since, as I have before stated, the effects of whatever changes are made must ultimately fall upon and be borne by the people.

I do not, of course, assume to believe the passage of this bill would take away all of our bank balances, because most bankers carry cash means largely in excess of their legal requirements, and, besides, many of our correspondents may not join the system; in which event their balances would remain undisturbed. I cannot, therefore, tell definitely to what extent our deposits would be affected by the adoption of the plan embodied in the bill; no more can the framers of the bill know.

The plan suggested by the committee of bankers contemplated a reduction of the amount of reserves carried by banks with their correspondents by over one-half, as it seemed to us that to require a greater distribution of the reserves at once, or during the time the plan is being perfected, would be more drastic than is necessary and would do more harm to business than it could possibly do good. Why should it not be given a trial upon that basis for a few years and see what effect it would have upon business, leaving a further modification to some future time when it could be made with the certainty that it would not have any bad effect upon business, instead of legalizing an Act so revolutionary, upon the mere guess of anyone as to how it would affect the business of our country and the consequent prosperity, welfare, and happiness of our millions of people?

To say you want to decentralize the concentration of credits in the centers sounds very well, and it is a popular "catch-phrase" with those whose desire for currency legislation is measured by their prejudice against and their desire to punish what has become popularly known as "Wall Street."

Without undertaking to discuss the merits of the criticisms of Wall Street, which criticisms I believe are largely responsible for whatever prejudice exists in this direction, I want to say that patriotism, honesty, integrity, good citizenship and fair-dealing can neither be made nor destroyed by the mere passage of laws, and I cannot refrain from saying to those who will be responsible for the enactment of this law that it will be just as impossible to pass legislation of a financial nature that will punish Wall Street without punishing in a proportionate measure every city, town, and hamlet in the whole country, as it would be impossible to pass a law which could force a change in the law of gravity.

You can regulate and supervise, but when you try to bring about an entire change from those natural conditions created by the development, growth and natural trend of our business and commerce, you are undertaking a task fraught with great danger. Wherever large numbers of people congregate and large amounts of wealth assemble, those people and that wealth will wield a proportionate influence. Legislation on this, as well as every subject, should be free from all prejudice and animus and have as its basis equity and justice.

The bill provides for practically the same use of reserves as at present, but it requires the transfer of these reserves from the banks now holding them to the Federal Reserve banks,—reserves that the banks have been accumulating during 50 years of competitive banking,—and by the provisions of this bill it is now proposed to require their transfer within three years to another kind of a bank to be organized where they will still be used in a similar manner. As bankers, we are not opposed to this, if, by giving up this business, we can feel that the full purposes of this legislation will be accomplished and that there will be provided a proper safeguard against future violent depressions in business or panics and that our organization of credit will be free from the frequent disturbances which we have experienced in recent years under our present law. I believe the purposes for which financial legislation is to be enacted will be better served by the transferring from existing banks to the Federal Reserve banks, at the start, of only about one-half of the reserves, as that would make changes in business less radical and less revolutionary than would be the case if there should be an early transfer of all of these reserves to those banks.

This would not cause any delay in the establishment of the Federal Reserve banks, nor would it prevent them from developing their business.

All that is good is not confined to any one class of men any more than all that is bad is confined to any other class. Human nature is

about the same in all classes of people, and under the law of averages the good and the bad are fairly well distributed among the different classes. The bankers, as a class, are neither better nor worse than a similar number of people comprising other classes, but they rank high, in comparison with any other class, in their standard of good citizenship and fair dealing. There may be warrant for criticism of some of the conditions that exist and the things that are done in Wall Street, as there is, no doubt, warrant for criticism of some of the things done in other centers. I believe, however, much of this prejudice is due to a misapprehension on the part of the public who regard a certain class of operators in the Stock Market as bankers.

While this class is not large in numbers, the use by them of the word "brokers" is a defamation of that term as it is understood by the average legitimate broker, quite as much as the use of the word "banker" on their letterheads is a defamation of legitimate banking; and I hope that legislators will not charge to the bankers of the country anything which this class of men say or do for the purpose of influencing Stock Exchange transactions.

All I ask is that public opinion shall not place the sins of others on the heads of reputable bankers. Hold all guilty of wrongdoing to a strict accountability of their actions, and when the public is thought to be outraged by the action of some man, firm, or corporation, make your criticisms against the guilty ones and not against the class to which they belong or to which they would have you believe they belong. There should be no indiscriminate class criticism, but if criticism must be made let it be directed against the wrongdoer.

I fear that such prejudice against bankers as has been created exists as the result of confusing the banking business with Stock Exchange transactions conducted by such men as I have referred to; and, in deference to justice, I believe all fair-minded people will agree that the one hundred thousand or more officers of the twenty-five thousand banks of the country should not be held to an accountability for the actions of some individual, whether or not such an individual is or claims to be a member of their class.

Again, I say, provide for a banking and currency system in the United States which will create a broad market for commercial paper and bills of exchange and which will attract the excess money of the banks of the country through providing liquid investments which are quickly convertible into cash, and you will soon correct most of the alleged abuses of the use of money and credit in the centers.

Now, gentlemen, as I stated in the beginning, I am not making these criticisms of and comments on the bill for the mere sake of being contentious, but rather I do so in the hope that open-minded consideration of the bill by those who are sincerely interested in the public welfare may result in causing some changes and modifications to be made which will make the plan more workable in the event the bill should be enacted into a law.

This bill, as it stands, is a compromise between the conservative and radical members of the Democratic party, and since it has many good qualities it would require the application of only a little more of the spirit of compromise and co-operation between the legislators and the bankers of the country to make it fairly acceptable to all.

I do not desire to see legislation defeated, for I regard the necessities for an improved system of banking and currency as already too urgent.

In view of the answers received by the New York Times to questions on this subject sent to banks, I am confident quite a percentage of the National banks will not become subscribers; especially do I feel the small banks throughout the country will decline to do so, and I cannot conceive how any system of banking can be entirely successful if there cannot be harmony of purpose and action between the twenty-five thousand banks and those controlling the system into which they must enter.

Summarizing, I would recommend the following changes as a means of bringing the plan to a much more workable, as well as a more equitable, basis.

Provide for representation of banks on the Federal Reserve Board or for the organization of an Advisory Board composed of one selected by each Federal Reserve Bank, thus bringing into daily contact with the members of the Federal Reserve Board men who would be familiar with the banking business and agricultural conditions in each section of the country, thereby insuring a more intelligent discharge of their duties so far as their actions would affect business in the various sections.

Modify the section relating to reserves, by providing that until the plan has been fully tried out, one-third of the reserves that banks in Country towns and in Reserve cities are required to carry may be carried with Reserve correspondents as is now done under the National Banking Law, leaving the requirement that banks in Central Reserve cities must carry 20 per cent reserves, one-half of which must be in their vaults and one-half to their credit in the Federal Reserve Bank.

This would, as I have already stated, decentralize reserves in the centers over one-half and would be much less liable to disturb general business than the drastic and revolutionary shifting of reserves now provided for in the bill.

Later on, say five years after the plan has been in operation, any further shifting of reserves of the banks found to be necessary or desirable could be effected without taking the risk of disturbing business that might follow if the plan proposed is now enforced.

I would also recommend a change in the plan for the issuing of notes. While I think it much preferable that the Federal Reserve Bank should issue the notes, yet, knowing as I do, how determined in their opinion are many who are powerful in the Democratic party, that the Government should issue the notes, I am willing, in view of the fact the notes are abundantly secured, to yield

that point, but even then, the limit of the amount that can be issued should be removed and the tax, instead of being on the notes when issued, should be levied only when the Federal Reserve Bank issuing them should fail to maintain a proper reserve of gold against its liabilities.

I cannot feel that the Administration has a full conception of the ramifications of the power the bill vests in the Federal Reserve Board, and I hope that in their desire to enact the best possible legislation they will clearly see the necessity for modifying the bill in two or three sections with a view of so harmonizing the situation that the banks not only will be willing to enter the system, but that they will do so enthusiastically, and on that co-operative basis so necessary for the success of the plan and the future welfare of our country.



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